

Message Text

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ACTION ARA-08

INFO OCT-01 SS-14 ADP-00 NSC-10 NSCE-00 CIAE-00 INR-10

NSAE-00 RSC-01 L-02 EB-03 H-01 PRS-01 CIEP-01 OMB-01

SCEM-01 TRSE-00 RSR-01 INRE-00 /055 W

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P 031645 Z APR 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 9288

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 2822

LIMDIS

E. O. 11652: GDS

TAGS: ENRG VE

SUBJECT: CONVERSATION WITH AMBASSADOR SOSA RODRIGUEZ ON US-
VENEZUELAN PETROLEUM RELATIONS

REF: CARACAS 2727

SUMMARY AMBASSADOR SOSA RODRIGUEZ PROFESSED THAT , BECAUSE OF
THE
VENEZUELAN ELECTIONS THIS YEAR AND UNCERTAINTY AS TO WHAT THE
EVENTUAL US POLICY ON PETROLEUM WILL BE, THERE IS NOT MUCH POINT
IN INITIATING CONVERSATIONS LOOKING TOWARD AN ENERGY AGREEMENT.
HOWEVER, FROM THE REMAINDER OF HIS CONVERSATION IT WAS CLEAR
THAT HE AND HIS GOVERNMENT ARE KEENLY INTERESTED IN ONWARD
ARRANGEMENTS ON THE DEVELOPMENT OF PETROLEUM; THAT AMBASSADOR
SOSA AT LEAST IS ANXIOUS TO MOVE RAPIDLY IN DEVELOPING A
US MARKET FOR VENEZUELAN LNG; AND THAT HE THINKS THE EVENTUAL
PRICE OF OIL EVERYWHERE WILL BE DETERMINED BY THE PRICE OF
ALTERNATIVE SYNTHETIC FUELS IN THE UNITED STATES. I MADE IT CLEAR
THAT IN MY JUDGMENT IT WAS IN THE INTEREST OF BOTH NATIONS TO
REACH AN ENERGY AGREEMENT PROVIDING FOR VENEZUELAN GUARANTEE OF
AMORTIZATION AND REASONABLE PROFIT OF FUTURE US INVESTMENT IN
RETURN FOR A US GUARANTEE OF UNLIMITED ACCEPTANCE OF ALL THE
OIL AND GAS VENEZUELA COULD PRODUCE. THERE MIGHT BE A POSSIBILITY
OF PREFERENTIAL TREATMENT FOR VENEZUELA IF VENEZUELA ACCORDED
PREFERENTIAL TREATMENT TO THE UNITED STATES. END SUMMARY
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1. AS INDICATED PARAGRAPH 8 REFTTEL, I LUNCHEDED YESTERDAY ALONE WITH AMBASSADOR SOSA. HE PUT UP A FAIRLY THICK SMOKE SCREEN ABOUT HIS DESIRE TO DISENGAGE HIMSELF FROM GOVERNMENT ACTIVITIES AND TO CONCENTRATE ON OTHER DEVELOPMENT ASPECTS OF THE VENEZUELAN ECONOMY. HOWEVER, IT WAS FAIRLY CLEAR THAT HIS HEART IS STILL IN THE PETROLEUM PROBLEM AND THAT IF ASKED AGAIN BY PRESIDENT CALDERA AND INSISTED UPON BY FONMIN CLAVANI HE WILL RETURN TO THE NEGOTIATION FIRING LINE.

2. ASTUTELY AMBASSADOR SOSA SAID THAT AT PRESENT GIVEN THE ELECTORAL PERIOD IN VENEZUELA AND UNCERTAINTY AS TO THE FORTH-COMING US PETROLEUM POLICY, THERE WAS NOTHING MUCH TO TALK ABOUT. I RESPONDED THAT THIS WAS A FAIR JUDGMENT BUT WARNED HIM THAT US ENERGY POLICY WAS NOW IN THE PROCESS OF FORMULATION AND THAT I DID NOT WISH VENEZUELA TO BE LEFT BEHIND ONCE OUR ULTIMATE POLICY WAS ANNOUNCED. I COULD MAKE NO PREDICTION AS TO WHAT THAT POLICY WOULD BE. HOWEVER, I HAD IN MY RECENT VISIT TO WASHINGTON URGED ON THE IMPORTANT EXECUTIVES OF OUR NEW OIL ADMINISTRATION THAT WESTERN HEMISPHERE PREFERENCE BE KEPT IN MIND FOR VENEZUELA -- PROVIDED THAT VENEZUELA KEPT IN MIND A RECIPROCAL OBLIGATION FOR FAIR TREATMENT TO THE US.

3. SOSA MADE SOUNDS ABOUT HOW INTERESTED OTHER COUNTRIES WERE IN THE ORINOCO BELT. I REPLIED THAT PERHAPS WE HAD INDICATED AN UNDUE INTEREST. SO FAR AS I PERSONALLY WAS CONCERNED THE OFFERS OF SHEIK YAMANI OF INVESTING \$2 BILLION IN THE US, WITH THE ACCESSIBILITY OF 350,000 TON TANKERS EMERGING FROM THE PERSIAN GULF AROUND THE CAPE OF GOOD HOPE TO THE EAST COAST OF THE UNITED STATES, MADE THE DIFFICULTIES OF EXTRACTING ORINOCO TAR LESS ATTRACTIVE THAN THEY OTHERWISE MIGHT HAVE BEEN. THEREFORE, I SAID TO MY LUNCHEON GUEST, WE WERE IN NO GREAT HASTE OR ANXIETY IN HELPING TO DEVELOP THIS POTENTIAL RESOURCE; BUT I COULD FORESEE HOW VENEZUELA FOR BUDGETARY REASONS ALONE MIGHT SOON WANT TO TAKE A FRIENDLY INTEREST IN ASSURING THE NECESSARILY HUGE INVESTMENT REQUIRED BEFORE THIS NATURAL RESOURCE COULD BE DEVELOPED. I ADDED THAT I HOPED MY FRIEND PEREZ LA SALVIA, MINISTER OF MINES AND HYDROCARBONS, WOULD NOT MISCONSTRUE OUR INTEREST, OR THAT HE WOULD MISINTERPRET THE VERB "NEGOCIAR" AS MEANING "CONFISCAR."

4. WE ALSO WERE IN AGREEMENT THAT THE SO-CALLED ORINOCO BELT

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IS NOT THE ONLY SOURCE OF OIL IN VENEZUELA AND THAT IT COULD BE OF MORE IMMEDIATE MUTUAL ADVANTAGE IF WAYS WERE FOUND TO ENCOURAGE FURTHER EXPLORATION AND PRODUCTION OF CONVENTIONAL OIL. HOWEVER, I POINTED OUT THAT WITH THE PRESENT REVERSION LAW ON THE BOOKS NO AMERICAN COMPANY IN ITS RIGHZV SENSES WOULD INVEST A NICKEL IN FURTHER EXPLORATION AND WITH THIS AMBASSADOR SOSA AGREED. HE CLEARLY IMPLIED THAT THE REVERSION ACT WOULD HAVE TO BE TONED DOWN IF VENEZUELA WERE TO INCREASE PRODUCTION OF POTENTIAL PETROLEUM RESERVES, AND SAID HE THOUGHT SOMETHING IN THE MEANWHILE COULD BE WORKED OUT USING CVP AS THE OSTENSIBLE EXECUTIVE AGENT BUT WITH ACTUAL PARTICIPATION BY THE AMERICAN COMPANIES. AMBASSADOR SOSA CLEARLY RECOGNIZED THAT FOR GEOLOGICAL REASONS ALONE VENEZUELAN PRODUCTION OF CONVENTIONAL OIL IS GOING DOWN WITH CONSEQUENCES FOR THE BUDGET WHICH POLITICIANS WILL NOT RELISH WHEN EVENTUALLY THEY ARE FORCED TO FACE THE FACTS.

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 9289

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 2822

LIMDIS

5. AMBASSADOR SOSA THEN CHANGED THE TRACK OF THE CONVERSATION TO NATURAL GAS. HE SAID IT WAS A NATIONAL LOSS THAT ONE BILLION CUBIC FEET OF GAS A DAY IS CURRENTLY BEING FLARED IN WESTERN VENEZUELA AND THAT HE DISAGREED WITH THE COPEI GOVERNMENT'S INSISTENCE ON SIMULTANEOUSLY DEVELOPING BOTH WESTERN AND EASTERN VENEZUELA RESOURCES OF GAS. HE THOUGHT TO START WITH THAT THERE SHOULD BE A LNG COMPRESSION PLANT ESTABLISHED IN THE WEST AT LAKE MARACAIBO WHERE HE THOUGHT THERE WOULD BE SUFFICIENT

RESERVES TO SUPPLY GAS AT A RATE OF 600 MILLION CUBIC FEET A DAY FOR POSSIBLY 20 YEARS.

THIS, HOWEVER, HE CAUTIONED, WAS AN EDUCATED GUESS AND NOT A GUARANTEE. WHAT HE THOUGHT WAS OF UTMOST IMPORTANCE WAS READINESS

OF OUR FEDERAL POWER COMMISSION TO PERMIT FREE ADMISSION OF VENEZUELAN LNG AT PRICES WHICH WERE OF ECONOMIC INTEREST.

6. I REPLIED THAT I DID NOT THINK THAT THIS NECESSARILY REQUIRED A GOVERNMENT- TO- GOVERNMENT AGREEMENT, AND WE HAD ALWAYS TO KEEP IN MIND THAT THE FEDERAL POWER COMMISSION IS AN AUTONOMOUS AUTHORITY. HOWEVER, UNDOUBTEDLY THE FOREIGN POLICY RECOMMENDATIONS OF THE STATE DEPARTMENT WOULD BE KEPT IN MIND BY THE POWER COMMISSION AS WELL AS THE VIEWS OF THE EXECUTIVE BRANCH. HOPEFULLY, AN AGREEMENT COULD BE WORKED OUT, THEREFORE, BETWEEN CVP AS REPRESENTING VENEZUELAN GAS INTERESTS, THE AMERICAN IUNEANIES CONCERNED, AND THE FEDERAL POWER COMMISSION.
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7. AMBASSADOR SOSA MENTIONED THE LEGAL MEASURES TAKEN BY CERTAIN AMERICAN PETROLEUM COMPANIES IN THE VENEZUELAN COURTS SEEKING TO PROTECT THEIR CONCESSIONARY RIGHTS TO GAS AS BEING ASSOCIATED WITH THEIR OVERALL PETROLEUM CONCESSIONS. I REPLIED THAT, QUITE APART FROM THE LEGALITIES OF THE SITUATION I HAD INTIMATIONS THAT OUR COMPANIES WOULD BE WILLING TO ENTER INTO A PRAGMATIC SOLUTION WITH CVP AS VENEZUELA' S AGENT SO THAT FOR " SERVICES RENDERED" THEY WOULD RECEIVE A PAYMENT POSSIBLY EQUIVALENT TO THAT WHICH THEY WOULD OTHERWISE HAVE RECEIVED AS CONCESSIONAIRES FOR GAS SOLD. I THOUGHT THAT BOTH THE US AND VENEZUELA HAD MUCH TO GAIN BY SUCH A PRACTICAL APPROACH TO THE PROBLEM. AMBASSADOR SOSA AGREED AND SAID HE THOUGHT THE MATTER WAS ONE OF GREAT URGENCY.

8. CONCLUSIONS: IT IS OBVIOUS THAT SINCE VENEZUELAN KNOW THAT WE OURSELVES HAVE NOT DECIDED ON AN OVERALL ENERGY POLICY THEY ARE RELUCTANT TO ENTER INTO NEGOTIATIONS FOR A LONG- TERM ENERGY AGREEMENT UNTIL THEY KNOW WHAT OUR POLICY IS. HOWEVER, I WARNED AMBASSADOR SOSA THAT OUR DECISION MIGHT BE ANNOUNCED ABRUPTLY AND IN LIGHT OF A CHANGED SITUATION VENEZUELA MIGHT BE INCLINED TO MOVE MORE RAPIDLY RATHER THAN MORE SLOWLY. HOWEVER, SINCE NEITHER OF US KNEW WHAT THE EVENTUAL US ENERGY POLICY WOULD BE IT WAS UNDERSTANDABLE THAT THERE WAS NOT MUCH TO TALK ABOUT TODAY IN TERMS OF AN ENERGY TREATY, ALTHOUGH I CONTINUED TO BELIEVE THAT MY ORIGINAL FORMULA OF A VENEZUELAN GUARANTEE OF OUR INVESTMENT AND RIGHT TO MAKE A

PROFIT, IN RETURN FOR US UNLIMITED ACCEPTANCE OF ALL THE OIL AND GAS VENEZUELA COULD PRODUCE, WOULD BE THE EVENTUAL BASIC AGREEMENT. SOSA, WHO IS UNDOUBTEDLY THE MOST KNOWLEDGEABLE VENEZUELAN ON PETROLEUM AFFAIRS WITH THE DIRECT EAR OF THE PRESIDENT, SAID THAT IN HIS JUDGMENT THE DETERMINATIVE FACTOR WOULD BE PRICE -- AND THIS PRICE WOULD BE DETERMINED BY WHAT HE CALLED " THE SYNTHETICS." IN OTHER WORDS, HE ENVISIONS A RAPID TRANSITION BETWEEN THE TRADITIONAL FIXING OF PETROLEUM PRICES TO A SITUATION WHERE THE UNITED STATES WOULD EVALUATE ITS DOMESTIC ENERGY COST AT THE PRICE OF SYNTHETIC FUELS, WHETHER DERIVED FROM SHALE, GASSIFIED COAL, NUCLEAR POWER OR ATHABASCA TAR SANDS. ONCE THESE WUD HDBBERE ESTABLISHED HE CLEARLY IMPLIED THAT CONFIDENTIAL

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VENEZUELA AND OTHER PRODUCERS OF NATURAL PETOLEUM WOULD BGNJ TO REACH THIS SAME CEILING. I REPLIED THAT I DID NOT KNOW WHAT EVENTUALLY WOULD TRANSPIRE BUT THAT I WOULD ADVOCATE A PREFERENCE FOR VENEZUELA IF VENEZUELA GAVE A PREFERENCE TO THE UNITED STATES.

9. COMMENT: DESPITE HIS REPEATED ASSEVERATIONS OF DESIRE TO RETURN TO PRIVATE LIFE AND NO LONGER TO WORK FOR THE GOVERNMENT, IT WAS CLEAR THAT EVERYTHING WE DISCUSSED THIS AFTERNOON WILL PROMPTLY BE REPORTED TO THE PRESIDENT AND FOREIGN MINISTER. ON THIS LATTER POINT, SOSA MADE IT VERY CLEAR THAT THE KEY OFFICIAL IN THE GOVERNMENT DEALING WITH US- VENEZUELAN OIL RELATIONS IS NOT THE MINISTER OF MINES AND HYDROCARBONS BUT FOREIGN MINISTER CALVANI. THEREFORE, OUR SECRETARY OF STATE SHOULD BE WELL BRIEFED ON PETROLEUM ISSUES IF IN FACT OUR ENERGY POLICY IS ANNOUNCED DURING CALVANI' S SOJOURN IN WASHINGTON, WHERE HE ARRIVES THIS EVENING TO PRESIDE OVER THE OAS GENERAL ASSEMBLY. MCCLINTOCK

NOTE BY OC/ T: PARA 8 RECEIVED GARBLED. CORRECTION TO FOLLOW.

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*** Current Handling Restrictions *** LIMDIS

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 03 APR 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973CARACA02822
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730431/aaaahksp.tel
Line Count: 271
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 73 CARACAS 2727
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 24 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24-Jan-2002 by martinjw>; APPROVED <13 FEB 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971118
Subject: CONVERSATION WITH AMBASSADOR SOSA RODRIGUEZ ON US- VENEZUELAN PETROLEUM RELATIONS
TAGS: ENRG, VE, (RODRIGUEZ, SOSA)
To: ARA
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005